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SUBJECT: TAIWAN FUEL PRICES TO REFLECT MARKET

REF: A. 05 TAIPEI 04548

[1](#)B. TAIPEI 02412

[1](#)1. SUMMARY. Taiwan's China Petroleum Corporation (CPC), announced September 27 a NT\$0.9 per liter reduction in wholesale prices of gasoline and diesel fuel and implemented a system to base its wholesale prices on fluctuations in international crude oil markets. This move follows years of direct control over fuel prices. END SUMMARY

MARKET VERSUS GOVERNMENT PRICING

[1](#)2. With crude oil prices falling in international markets, State run CPC announced on Sept. 27 a NT\$0.9 per liter reduction (NT\$3.4/gallon or USD .10/gallon) in its wholesale price of gasoline and diesel. At the same time CPC introduced a new pricing scheme, using the price fluctuations of West Texas Intermediate (WTI) crude as a benchmark. Henceforth, every Tuesday new prices will be announced based on the previous day's WTI cost per barrel. Under the old pricing scheme, every time CPC wished to adjust oil prices, it had to obtain approval of the Ministry of Economic Affairs (MOEA). Now MOEA and CPC will jointly monitor and fine-tune the pricing scheme on a trial basis until the system is finalized next year. On October 10, the first Tuesday since the plan was announced, CPC lowered the price of gasoline by a further NT\$0.2 bringing the total drop in prices in two weeks to NT\$1.10 or USD .035.

CPC LOSING MONEY

[1](#)3. Ironically, CPC can ill afford a price drop given the huge losses of NT\$25.4 billion (about USD 769.7 million) it reported over the first eight months of this year. According to the Taiwan Bureau of Energy, these losses are partly due to gasoline being sold below cost. CPC has been selling at government-set prices and has aging refining equipment which results in higher production costs. To placate consumers, MOEA Minister Chen Ruey-nong said on Sept. 25 that under the new floating gasoline price scheme, gasoline rates will be maintained at the lowest rate among Asian countries.

CPC: MULTIPLE PRESSURES

[1](#)4. Industry insiders told AIT there is a lack of public

understanding of the burden CPC has to bear, both from consumers and also from the legislature (Legislative Yuan or LY). Analysts said mandated subsidies CPC must provide to Taipower and transportation companies have resulted in ever increasing deficits for CPC due to the increase in crude oil prices. The latest market approach to pricing may reduce the deficit at CPC analysts believe but legislators were likely to continue to demand subsidized fuel prices for government agencies and consumers. CPC has proposed to continue providing subsidized fuel to Taipower and transportation companies, but with quota limits. Once those limits are reached the buyer must pay market prices.

TAXI DRIVERS SEE A PROBLEM

15. The latest gasoline price change drew protests from taxi drivers in Taipei on September 30 when dozens of taxis queued in front of CPC headquarters to protest what they saw as price reductions not commensurate with the drop in international oil prices. CPC admits that the company needs to educate the public on the realities of fuel prices.

COMMENT

16. Until the rapid increase in the price of crude oil beginning this year, CPC and Taipower were able to stay profitable, enabling the authorities to mandate low energy prices in Taiwan. By doing so, the government has lulled consumers into expecting low fuel prices indefinitely. Going to a market-based pricing scheme will be politically painless as long as international prices are falling. But, as prices move up, as well as down, LY members and other elected leaders will find it increasingly challenging to stay out of CPC pricing decisions. With mayoral elections for Taipei and Kaohsiung (Taiwan's two most populous cities) set for December this year, it is no surprise CPC's pricing trial is set to run through the end of the year and be reviewed and finalized next year. END COMMENT
YOUNG